

CITY OF ROCKWELL CITY, IOWA

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

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City of Rockwell City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Phil Heinlen	Mayor	Jan 2006
Gerri McCurdy	Mayor Pro Tem	Jan 2006
JoAnn Hendricks	Council Member	Jan 2004
Paul Kutz	Council Member	Jan 2004
Mark Lange	Council Member	Jan 2004
John Hepp	Council Member	Jan 2006
(After January 2004)		
Phil Heinlen	Mayor	Jan 2006
Gerri McCurdy	Mayor Pro Tem	Jan 2006
John Hepp	Council Member	Jan 2006
JoAnn Hendricks	Council Member	Jan 2008
Paul Kutz	Council Member	Jan 2008
Mark Lange	Council Member	Jan 2008
Kimberly Kelly	City Clerk	Jan 2005
Joni Hepp	Deputy Clerk/Treasurer	Jan 2006
Steve Hendricks	Attorney	Jan 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockwell City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Rockwell City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockwell City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2004 on our consideration of the City of Rockwell City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on page 4 through 8 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwell City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

October 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rockwell City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 10%, or approximately \$129,360, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$25,583, primarily due to increased health insurance and workers compensation premiums. There were no bond proceeds either year.
- Disbursements decreased 7.2%, or approximately \$84,080, in fiscal 2004 from fiscal 2003. Public safety disbursements increased by \$70,411 which included purchase of a grant-funded fire truck and a lease payment for a new ambulance. Debt service and capital projects disbursements decreased approximately \$10,600 and \$12,800, respectively.
- The City's total cash basis net assets increased 2.5%, or approximately \$65,620, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$22,650 and the assets of the business type activities increased by approximately \$42,970.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, increasing from \$1.221 million to \$1.243 million. Included within this report is an analysis that focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities decreased by 10%, or \$129,358. The total cost of all programs and services decreased by approximately \$84,080, or 7.2%, with no new programs added this year.

The City increased property tax rates for 2004 by approximately 5.8%, primarily due to increases in insurance premiums, raising the City's property tax receipts by approximately \$25,580 in 2004. Despite further rate increase for the upcoming year, decreases in the total assessed valuation will result in a loss of property tax receipts in the amount of \$10,734.

<u>Year</u>	<u>Property Tax Receipts</u>	<u>City Levy</u>
FY03	\$528,904	18.10664
FY04	\$554,487	19.15335
FY05	\$546,742	21.12691

The cost of all governmental activities this year was \$1.086 million compared to \$1.170 million last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$554,487 because some of the cost was paid by those directly benefited from the programs (\$251,416) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$302,489). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2004 from approximately \$1.238 million to approximately \$1.108 million, principally due to receiving various grant funds in 2003 and a loss of state funds for 2004.

Total business type activities receipts for the fiscal year were \$669,849 compared to \$652,610 last year. This increase was due primarily to the receipt of \$30,000 in grant and loan funds for the well drilling project that commenced toward the

end of FY04. The cash balance increased by approximately \$42,970. Total disbursements and transfers for the fiscal year decreased by approximately \$50,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Rockwell City completed the year, its governmental funds reported a combined fund balance of \$1,243,163, an increase of more than \$22,600 above last year's total of \$1,220,514. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$2,313 from the prior year to \$909,063.
- The Road Use Tax Fund cash balance increased by \$22,214 to \$204,656 during the fiscal year. More than \$70,000 of these reserves has been committed to financing the city's share of reconstruction of First Street which was completed in 2003.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$63,611 to \$1,093,908.
- The Sewer Fund cash balance decreased by \$20,641 to \$334,092, warranting a rate increase. The recent construction of a new wastewater treatment plant has resulted in bond payments which must be met.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, with approval on May 17, 2004. The budget amendment covered several changes: the loss of state funding and resulting cuts to departmental budgets, purchase of a grant-funded fire truck, increase ambulance revenue and billing service fees, lease/purchase of a new ambulance, pool bathhouse project, increase work comp and property insurance premiums, DARE program, library state funds, Trees Please grant, closeout of the Emergency Services Building project, drilling of a new well, sewer repairs and the closeout of the wastewater treatment plant project.

DEBT ADMINISTRATION

As of June 30, 2004, the City had approximately \$79,830 in bonds and other long-term debt, compared to approximately \$58,024 last year. Debt increased as a result of a capital lease for a new ambulance. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$530,000 is significantly below its constitutional debt limit of \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Rockwell City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Due to the loss of state funds and stagnant/declining property values, city officials have been forced to cut departmental budgets during recent years. Each year cuts are forced which are resulting in the provision of fewer services to taxpayers. City officials have implemented incentives for development, such as residential and commercial tax abatement and plans for an urban renewal/TIF district to be developed in 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kimberly Kelly, City Clerk, 335 Main Street, Rockwell City, Iowa 50579.

Basic Financial Statements

City of Rockwell City, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

		Program Receipts		
		Charges for	Operating Grants, Contributions and Restricted	Capital Grants, Contributions and Restricted
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 370,836	66,758	21,189	32,000
Public works	294,759	109,995	189,185	-
Health and social services	6,751	-	-	-
Culture and recreation	145,277	29,800	29,553	-
Community and economic development	36,149	-	31,466	-
General government	124,006	3,597	-	-
Debt service	104,965	-	-	-
Capital projects	3,001	-	-	-
Total governmental activities	<u>1,085,744</u>	<u>210,150</u>	<u>271,393</u>	<u>32,000</u>
Business type activities:				
Water	355,705	377,803	-	30,159
Sewer	271,174	247,395	-	-
Total business type activities	<u>626,879</u>	<u>625,198</u>	<u>-</u>	<u>30,159</u>
Total	<u>\$ 1,712,623</u>	<u>835,348</u>	<u>271,393</u>	<u>62,159</u>

General Receipts:

Property tax levied for:
 General purposes
 Debt service
Grants and contributions not restricted
 to specific purpose
Unrestricted interest on investments
Miscellaneous
Total general receipts
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Employee benefits
 Debt service
 Other purposes
Unrestricted
 Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(250,889)	-	(250,889)
4,421	-	4,421
(6,751)	-	(6,751)
(85,924)	-	(85,924)
(4,683)	-	(4,683)
(120,409)	-	(120,409)
(104,965)	-	(104,965)
(3,001)	-	(3,001)
<u>(572,201)</u>	<u>-</u>	<u>(572,201)</u>
-	52,257	52,257
<u>-</u>	<u>(23,779)</u>	<u>(23,779)</u>
-	28,478	28,478
<u>(572,201)</u>	<u>28,478</u>	<u>(543,723)</u>
449,770	-	449,770
104,717	-	104,717
8,523	-	8,523
14,326	14,492	28,818
17,513	-	17,513
<u>594,849</u>	<u>14,492</u>	<u>609,341</u>
22,648	42,970	65,618
<u>1,220,514</u>	<u>1,364,389</u>	<u>2,584,903</u>
<u>\$ 1,243,162</u>	<u>1,407,359</u>	<u>2,650,521</u>
\$ 204,656	-	204,656
17,208	-	17,208
53,395	189,055	242,450
58,840	-	58,840
<u>909,063</u>	<u>1,218,304</u>	<u>2,127,367</u>
<u>\$ 1,243,162</u>	<u>1,407,359</u>	<u>2,650,521</u>

City of Rockwell City, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue		
		Road	
	<u>General</u>	<u>Use</u>	<u>Employee</u>
		<u>Tax</u>	<u>Benefits</u>
Receipts:			
Property tax	\$ 270,141	-	153,466
Other city tax	16,564	-	9,599
Licenses and permits	3,597	-	-
Use of money and property	18,831	-	-
Intergovernmental	115,039	185,231	-
Charges for service	206,066	-	-
Miscellaneous	21,330	-	-
Total receipts	<u>651,568</u>	<u>185,231</u>	<u>163,065</u>
Disbursements:			
Operating:			
Public safety:			
Police	141,293	-	68,033
Civil defense	253	-	-
Fire	43,233	-	3,937
Ambulance	102,939	-	10,756
	<u>287,718</u>	<u>-</u>	<u>82,726</u>
Public works:			
Street lighting	-	25,183	-
Airport	7,554	-	-
Solid waste	82,782	-	-
Roadway maintenance	-	137,834	41,406
	<u>90,336</u>	<u>163,017</u>	<u>41,406</u>
Health and social services:			
Mosquito control	5,600	-	-
Other	1,151	-	-
	<u>6,751</u>	<u>-</u>	<u>-</u>
Culture and recreation:			
Library	52,350	-	8,659
Park	17,363	-	2,976
Swimming pool	47,433	-	4,881
Cemetery	9,164	-	556
	<u>126,310</u>	<u>-</u>	<u>17,072</u>

City of Rockwell City, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue		
		Road	
	<u>General</u>	Use <u>Tax</u>	Employee <u>Benefits</u>
Community and economic development:			
Economic development	35,149	-	-
Community beautification	1,000	-	-
	<u>36,149</u>	<u>-</u>	<u>-</u>
General government:			
Policy administration	56,745	-	22,015
Tort liability	45,246	-	-
	<u>101,991</u>	<u>-</u>	<u>22,015</u>
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>649,255</u>	<u>163,017</u>	<u>163,219</u>
Excess (deficiency) of receipts over (under) disbursements	2,313	22,214	(154)
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	2,313	22,214	(154)
Cash balances beginning of year	906,750	182,442	17,362
Cash balances end of year	<u>\$ 909,063</u>	<u>204,656</u>	<u>17,208</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	909,063	-	-
Special revenue funds	-	204,656	17,208
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 909,063</u>	<u>204,656</u>	<u>17,208</u>

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental		
<u>Funds</u>	<u>Total</u>	
98,588	522,195	
6,129	32,292	
-	3,597	
570	19,401	
2,219	302,489	
-	206,066	
<u>1,022</u>	<u>22,352</u>	
<u>108,528</u>	<u>1,108,392</u>	

392	209,718	
-	253	
-	47,170	
-	113,695	
<u>392</u>	<u>370,836</u>	

-	25,183	
-	7,554	
-	82,782	
-	179,240	
<u>-</u>	<u>294,759</u>	

-	5,600	
-	1,151	
<u>-</u>	<u>6,751</u>	

1,895	62,904	
-	20,339	
-	52,314	
-	9,720	
<u>1,895</u>	<u>145,277</u>	

(continued)

Exhibit B

Other Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
-	35,149
-	1,000
-	36,149
-	78,760
-	45,246
-	124,006
104,965	104,965
3,001	3,001
110,253	1,085,744
(1,725)	22,648
45,496	45,496
(45,496)	(45,496)
-	-
(1,725)	22,648
113,960	1,220,514
112,235	1,243,162
53,395	53,395
-	909,063
5,440	227,304
53,400	53,400
112,235	1,243,162

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 376,659	247,295	623,954
Miscellaneous	1,144	100	1,244
Total operating receipts	<u>377,803</u>	<u>247,395</u>	<u>625,198</u>
Operating disbursements:			
Business type activities:			
Personal services	75,783	65,632	141,415
Contractual services	69,838	6,095	75,933
Utilities	18,079	17,812	35,891
Repairs and maintenance	27,175	29,104	56,279
Other supplies and expenses	59,433	12,193	71,626
Capital outlay	4,556	596	5,152
Total operating disbursements	<u>254,864</u>	<u>131,432</u>	<u>386,296</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	122,939	115,963	238,902
Non-operating receipts (disbursements):			
Intergovernmental	30,159	-	30,159
Interest on investments	11,354	3,138	14,492
Debt service:			
Principal redemption	(60,000)	(68,000)	(128,000)
Interest payments	(34,155)	(65,056)	(99,211)
Lease payments	(6,686)	(6,686)	(13,372)
Total non-operating receipts (disbursements)	<u>(59,328)</u>	<u>(136,604)</u>	<u>(195,932)</u>
Net change in cash balances	63,611	(20,641)	42,970
Cash balances beginning of year	1,030,297	334,092	1,364,389
Cash balances end of year	<u>\$ 1,093,908</u>	<u>313,451</u>	<u>1,407,359</u>
Cash Basis Fund Balances			
Reserved for improvements	208,674	-	208,674
Reserved for debt service	57,055	132,000	189,055
Unreserved	828,179	181,451	1,009,630
Total cash basis fund balances	<u>\$ 1,093,908</u>	<u>313,451</u>	<u>1,407,359</u>

See notes to financial statements.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Rockwell City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Rockwell City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Calhoun County E911 Service Board and Calhoun County Ambulance Authority.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for payments of the City's share of employee taxes and insurance for governmental fund employees.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Rockwell City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2004. During the year ended June 30, 2004 the City invested its excess funds in savings accounts and certificates of deposit.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, general obligation notes, revenue bonds, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 50,000	22,193	35,000	3,063
2006	50,000	18,718	35,000	1,540
2007	90,000	15,917	---	---
2008	95,000	10,878	---	---
2009	95,000	5,462	---	---
2010	---	---	---	---
2011	---	---	---	---
2012	---	---	---	---
2013	---	---	---	---
2014	---	---	---	---
2015	---	---	---	---
2016	---	---	---	---
2017	---	---	---	---
2018	---	---	---	---
2019	---	---	---	---
Total	<u>\$ 380,000</u>	<u>73,168</u>	<u>70,000</u>	<u>4,603</u>

Revenue Bonds		Revenue Notes		Total	
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
71,000	61,420	65,000	30,705	221,000	117,381
74,000	58,416	70,000	27,195	229,000	105,869
77,000	55,286	75,000	23,345	242,000	94,548
81,000	52,029	75,000	19,145	251,000	82,052
85,000	48,603	85,000	14,908	265,000	68,973
88,000	45,007	85,000	10,062	173,000	55,069
92,000	41,285	90,000	5,175	182,000	46,460
95,000	37,393	---	---	95,000	37,393
99,000	33,375	---	---	99,000	33,375
104,000	29,187	---	---	104,000	29,187
108,000	24,788	---	---	108,000	24,788
112,000	20,219	---	---	112,000	20,219
117,000	15,482	---	---	117,000	15,482
122,000	10,533	---	---	122,000	10,533
127,000	5,372	---	---	127,000	5,372
<u>1,452,000</u>	<u>538,395</u>	<u>545,000</u>	<u>130,535</u>	<u>2,447,000</u>	<u>746,701</u>
=====	=====	=====	=====	=====	=====

City of Rockwell City, Iowa
Notes to Financial Statements
June 30, 2004

The resolutions providing for the issuance of the revenue notes and bonds include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers equal to 25% of the monthly transfers to the water sinking account shall be made to a water reserve account. This account is restricted for the purpose of paying principal and interest should a deficiency exist in the water sinking account.
- d. A water improvement fund shall be maintained requiring a monthly payment of \$2,000; provided, however, that when the amount of said deposits in said fund shall equal or exceed \$75,000, no further monthly deposits need to be made except to maintain it at such level.
- e. The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%,

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$25,143, \$25,547 and \$23,691, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, holiday, and comp time hours for subsequent use or for payment upon termination, retirement or death.

Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned benefit payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, holiday and comp time	\$ 18,700 =====

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects Emergency Services	\$ 45,496 =====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,580 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Capital Leases

The City has entered into a capital lease for the purchase of a dump truck. This lease is from November 1, 2000 through November 1, 2004. During the year ended June 30, 2004 the City disbursed \$13,372 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2005	\$ 12,639	733	13,372
	=====	=====	=====

The City has entered into a capital lease for the purchase of a new street sweeper. This lease is from November 1, 2000 through November 1, 2004. During the year ended June 30, 2004 the City disbursed \$18,188 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2005	\$ 17,191	997	18,188
	=====	=====	=====

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2004

The City has entered into a capital lease for the purchase of an ambulance. This lease is from May 3, 2004 through May 3, 2007. During the year ended June 30, 2004 the City disbursed \$46,487 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2005	\$ 15,972	2,145	18,117
June 30, 2006	16,657	1,460	18,117
June 30, 2007	<u>17,371</u>	<u>746</u>	<u>18,117</u>
	\$ 50,000	4,351	54,351
	=====	=====	=====

(10) Construction and Other Commitments

The City has committed to constructing a new well for approximately \$965,000. The City plans to pay for this project with a \$500,000 grant and a \$465,000 revenue bond. As of June 30, 2004 approximately \$38,000 has been spent on this project.

The City has also paid a down payment of \$32,043 on a 2004 Ford Rescue truck. The City will owe an additional \$92,634 upon delivery of the truck.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplementary Information

City of Rockwell City, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 522,195	-
Other city tax	32,292	-
Licenses and permits	3,597	-
Use of money and property	19,401	14,492
Intergovernmental	302,489	30,159
Charges for service	206,066	623,954
Miscellaneous	22,352	1,244
Total receipts	<u>1,108,392</u>	<u>669,849</u>
Disbursements:		
Public safety	370,836	-
Public works	294,759	-
Health and social services	6,751	-
Culture and recreation	145,277	-
Community and economic development	36,149	-
General government	124,006	-
Debt service	104,965	-
Capital projects	3,001	-
Business type activities	-	626,879
Total disbursements	<u>1,085,744</u>	<u>626,879</u>
Excess (deficiency) of receipts over (under) disbursements	22,648	42,970
Balances beginning of year	<u>1,220,514</u>	<u>1,364,389</u>
Balances end of year	<u>\$ 1,243,162</u>	<u>1,407,359</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
522,195	524,716	524,716	(2,521)
32,292	32,760	32,760	(468)
3,597	3,118	3,118	479
33,893	54,650	55,050	(21,157)
332,648	313,468	1,278,375	(945,727)
830,020	801,150	831,150	(1,130)
23,596	21,000	81,300	(57,704)
<u>1,778,241</u>	<u>1,750,862</u>	<u>2,806,469</u>	<u>(1,028,228)</u>
370,836	310,768	389,567	18,731
294,759	330,360	329,491	34,732
6,751	7,651	7,651	900
145,277	155,994	158,372	13,095
36,149	55,750	56,000	19,851
124,006	123,434	124,592	586
104,965	104,966	104,966	1
3,001	-	48,000	44,999
<u>626,879</u>	<u>646,403</u>	<u>1,631,403</u>	<u>1,004,524</u>
<u>1,712,623</u>	<u>1,735,326</u>	<u>2,850,042</u>	<u>1,137,419</u>
65,618	15,536	(43,573)	109,191
<u>2,584,903</u>	<u>2,507,639</u>	<u>2,334,162</u>	<u>250,741</u>
<u>2,650,521</u>	<u>2,523,175</u>	<u>2,290,589</u>	<u>359,932</u>

City of Rockwell City, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,114,716. The budget amendment was reflected in the final budgeted amount.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Rockwell City, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	<u>Special Revenue</u>	
	<u>Library Building Trust</u>	<u>DARE</u>
Receipts:		
Property tax	\$ -	-
Other city tax	-	-
Use of money and property	124	-
Intergovernmental	2,219	-
Miscellaneous	90	432
Total receipts	<u>2,433</u>	<u>432</u>
Disbursements:		
Operating:		
Public safety:		
Police	-	392
Culture and recreation:		
Library	<u>1,895</u>	<u>-</u>
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>1,895</u>	<u>392</u>
Excess (deficiency) of receipts over (under) disbursements	538	40
Other financing sources (uses):		
Operating transfers in	-	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in cash balances	538	40
Cash balances beginning of year	4,230	632
Cash balances end of year	<u>\$ 4,768</u>	<u>672</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
Special revenue funds	4,768	672
Permanent fund	-	-
Total cash basis fund balances	<u>\$ 4,768</u>	<u>672</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Projects</u>		<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
<u>Emergency Services</u>	<u>Debt Service</u>		
-	98,588	-	98,588
-	6,129	-	6,129
446	-	-	570
-	-	-	2,219
-	-	500	1,022
<u>446</u>	<u>104,717</u>	<u>500</u>	<u>108,528</u>
-	-	-	392
-	-	-	1,895
-	104,965	-	104,965
3,001	-	-	3,001
<u>3,001</u>	<u>104,965</u>	<u>-</u>	<u>110,253</u>
(2,555)	(248)	500	(1,725)
-	45,496	-	45,496
(45,496)	-	-	(45,496)
(45,496)	45,496	-	-
(48,051)	45,248	500	(1,725)
48,051	8,147	52,900	113,960
-	53,395	53,400	112,235
-	53,395	-	53,395
-	-	-	5,440
-	-	53,400	53,400
-	53,395	53,400	112,235

City of Rockwell City, Iowa

Schedule of Indebtedness

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Swimming pool construction	Jun 1, 1989	6.75-7.10 %	\$ 340,000
Emergency services construction	Jun 1, 2000	5.60-5.75	350,000
Total			
General obligation notes:			
Capital loan note	Mar 2, 1998	4.00-4.40 %	\$ 220,000
Revenue bonds:			
Sewer revenue	Apr 19, 1999	4.23 %	\$ 1,766,000
Revenue notes:			
Water construction	Jul 1, 1996	5.00-5.75 %	\$ 905,000
Capital leases:			
Dump truck	Nov 1, 2000	5.80 %	\$ 59,921
Street sweeper	Nov 1, 2000	5.80	81,500
Ambulance	May 3, 2004	4.29	50,000
Total			

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
85,000	-	40,000	45,000	6,035	-
<u>340,000</u>	<u>-</u>	<u>5,000</u>	<u>335,000</u>	<u>19,278</u>	<u>-</u>
<u>\$ 425,000</u>	<u>-</u>	<u>45,000</u>	<u>380,000</u>	<u>25,313</u>	<u>-</u>
<u>100,000</u>	<u>-</u>	<u>30,000</u>	<u>70,000</u>	<u>4,353</u>	<u>-</u>
<u>1,520,000</u>	<u>-</u>	<u>68,000</u>	<u>1,452,000</u>	<u>64,296</u>	<u>-</u>
<u>605,000</u>	<u>-</u>	<u>60,000</u>	<u>545,000</u>	<u>33,855</u>	<u>-</u>
24,585	-	11,946	12,639	1,426	-
33,439	-	16,248	17,191	1,939	-
<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
<u>\$ 58,024</u>	<u>50,000</u>	<u>28,194</u>	<u>79,830</u>	<u>3,365</u>	<u>-</u>

Bond and Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	General Obligation Bonds				
	Pool Construction		Emergency Services		
	Issued Jun 1, 1989		Issued Jun 1, 2000		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2005	7.10 %	\$ 45,000	5.60 %	\$ 5,000	50,000
2006		-	5.60	50,000	50,000
2007		-	5.60	90,000	90,000
2008		-	5.70	95,000	95,000
2009		-	5.75	95,000	95,000
Total		<u>\$ 45,000</u>		<u>\$ 335,000</u>	<u>380,000</u>

Year Ending <u>June 30,</u>	General Obligation Notes		Revenue Notes	
	Capital Loan Notes Issued Mar 2, 1998		Water Construction	
	Issued Mar 2, 1998		Issued Jul, 1996	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2005	4.35 %	\$ 35,000	5.40 %	\$ 65,000
2006	4.40	35,000	5.50	70,000
2007		-	5.60	75,000
2008		-	6.50	75,000
2009		-	5.70	85,000
2010		-	5.75	85,000
2011		-	5.75	90,000
Total		<u>\$ 70,000</u>		<u>\$ 545,000</u>

(continued)

Bond and Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	Revenue Bonds						<u>Total</u>
	Sewer Revenue 1			Sewer Revenue 2			
	<u>Series 1999</u>			<u>Series 1999</u>			
	Interest			Interest			
	<u>Rates</u>		<u>Amount</u>	<u>Rates</u>		<u>Amount</u>	
2005	4.23	%	\$ 70,000	4.23	\$	1,000	71,000
2006	4.23		73,000	4.23		1,000	74,000
2007	4.23		76,000	4.23		1,000	77,000
2008	4.23		79,000	4.23		2,000	81,000
2009	4.23		83,000	4.23		2,000	85,000
2010	4.23		86,000	4.23		2,000	88,000
2011	4.23		90,000	4.23		2,000	92,000
2012	4.23		93,000	4.23		2,000	95,000
2013	4.23		97,000	4.23		2,000	99,000
2014	4.23		102,000	4.23		2,000	104,000
2015	4.23		106,000	4.23		2,000	108,000
2016	4.23		110,000	4.23		2,000	112,000
2017	4.23		115,000	4.23		2,000	117,000
2018	4.23		120,000	4.23		2,000	122,000
2019	4.23		<u>125,000</u>	4.23		<u>2,000</u>	<u>127,000</u>
Total			<u>\$ 1,425,000</u>			<u>\$ 27,000</u>	<u>1,452,000</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 522,195	502,888
Other city tax	32,292	26,016
Licenses and permits	3,597	3,441
Use of money and property	19,401	26,941
Intergovernmental	302,489	448,393
Charges for service	206,066	201,104
Miscellaneous	<u>22,352</u>	<u>12,728</u>
Total	<u>\$ 1,108,392</u>	<u>1,221,511</u>
Disbursements:		
Operating		
Public safety	\$ 370,836	312,083
Public works	294,759	294,602
Health and social services	6,751	951
Culture and recreation	145,277	145,897
Community and economic development	36,149	159,191
General government	124,006	110,691
Debt service	104,965	115,561
Capital projects	<u>3,001</u>	<u>15,779</u>
Total	<u>\$ 1,085,744</u>	<u>1,154,755</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Rockwell City, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Rockwell City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-I-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rockwell City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control

over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Rockwell City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rockwell City and other parties to whom the City of Rockwell City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rockwell City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

October 21, 2004

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We feel we are doing the best we can with the limited personnel we have.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Statutory Reporting:

II-A-4 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.

II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2004

- II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John Hepp, Council Member owns Johns Car Clinic	Repairs	\$ 2,050
Phil Hammen, Employee, Self-employed	Skid Loader Rental	\$ 530

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the above personnel do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- II-I-04 Revenue Notes/Bonds – The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

Recommendation – The City should consult legal counsel concerning this matter.

Response – We contacted our legal counsel and are in the process of increasing our sewer rates.

Conclusion – Response accepted.

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2004

II-J-04 Interest Rate on Investments – It was noted during the course of our audit that a substantial cash balance was deposited in a money market savings account that paid interest at less than one percent.

Recommendation – City officials should review their investments to see if a higher rate of interest could be achieved.

Response – We will discuss this at a future council meeting.

Conclusion – Response accepted.